

# Towards a Comprehensive Welfare State in South Korea:

Institutional features, new socio-economic and political pressures, and the possibility of the welfare state

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## **Abstract**

Among East Asian countries, South Korea has experienced the most significant modification to and extension of its state welfare system in the wake of the Asian financial crisis. Naturally, there have been various attempts to examine and assess the nature of these changes, and also to predict the future direction of the South Korean welfare state. One group of academics deemed these changes to be a meaningful sign of advancement towards a more western style of welfare state, whilst another group saw them as very limited. This paper will argue that South Korea is rapidly approaching a comprehensive welfare state, by examining the institutional design of the Korean welfare state arrangements. In addition, this article will examine both the positive and negative impacts of labour market polarization, demographic change, and post-democratisation in the course of establishing the modern welfare state in South Korea. Finally, this paper will cast serious doubt on the conventional argument that, in their development of welfare, East Asian countries are interchangeable societies which exhibit many common social policy traits, and which, consequently, can be classified as a single welfare state model. In terms of the developmental sequence in major state welfare programmes, Korea has shown a relatively similar path to the development process of developed countries, and has the potential to continue in the same direction.

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## I. Introduction

Among East Asian countries, South Korea (hereafter, Korea) experienced the most significant modification to, and extension of, its state welfare system in the aftermath of the Asian financial crisis. Naturally, there have been various attempts to examine and assess the nature of these changes, and also to predict the future direction of the Korean welfare regime. One group of academics deemed these changes to be limited, and argued that they should not be considered a meaningful sign of transition towards a western style welfare system. According to this perspective, Korea is not a welfare state by western standards (Tang, 2000), despite the substantial changes in the state welfare system. Scholars who advocate this viewpoint claim that the common characteristics of the 'developmental welfare state' in East Asian countries, such as 'productive elements' and family-based welfare provision, are still prevalent despite recent developments (Holliday, 2005; Cho, Y.H., 2002). In contrast to this perspective, another group of scholars have argued that such changes constitute an apparent advance of the Korean welfare system towards a more westernised model of a welfare state. For example, Kuhnle (2004) predicts that Korea will become a welfare system much closer to the social democratic type of welfare regime, and Ramesh (2003) argues that Korea will develop to become a less generous version of the conservative welfare state found in continental European countries. In my previous studies, I have shown Korea's welfare reforms during the financial crisis to be a crucial step towards becoming a welfare state (Kim, Y.M., 2001).

Although the perspective emphasizing Korea's possible transition towards a comprehensive welfare state is quite insightful, two further points must be added to make the argument more convincing. First, rather than analysing the institutional designs of the welfare schemes in Korea, the optimistic views tend to limit their focus to describing welfare expansion trends. According to the neo-institutionalistic argument (Pierson et al., 2001; Esping-Andersen et al., 1996) the institutional configurations of the welfare state arrangements are critical to understanding the different results and the divergent paths of welfare state restructuring in the West. However, existing literature that claims that Korea is becoming a welfare state seems to show weaknesses in linking together the institutional features of the welfare arrangements and the future path of the welfare state in Korea. For instance, Korea's welfare system is unique in having an 'integrated' social insurance model, in which a single insurer covers most of its citizens. This feature is evidently crucial, both in defining the characteristics of the Korean welfare regime and in

predicting its future direction. This paper will therefore analyse the institutional designs for the welfare systems in Korea and their possible effects on the establishment of a welfare state (Section II).

Another limitation of the existing literature is that the impacts of economic globalization, the pressures of demographic change, and post-democratization effects on the emerging universal social programmes in Korea have not been fully examined. Despite its relatively limited experience of industrialization, Korea has witnessed strong post-industrial phenomena from the late 1990s: the polarization of the labour market with a sudden increase in irregular workers, the rapid ageing of the population with low fertility rates, and substantial changes in family composition. In particular, the polarization of the labour market in terms of jobs and incomes could be the most serious challenge to establishing a universal welfare state by encroaching on the social and economic bases of an 'integrated' social insurance system. While the democratization process in the last two decades has contributed to the expansion of state welfare provision (Seong, K.R, 2002; Wong, 2005), democracy after democratization in Korea has offered an unfavourable political environment for the continued expansion of state welfare. After democratization, powerful market-based forces and many organized interest groups in the welfare field have been forcefully arguing for the introduction and expansion of market-based welfare provision. This article will discuss some possible effects of the recent economic, social, and political pressures on the formation of a comprehensive welfare state in Korea (Section III).

In the last section, there will be a theoretical discussion of the implications of recent welfare state developments in Korea, with regard to debates on the East Asian welfare regime. In particular, by focusing on 'productive welfare capitalism' (Holliday, 2001, 2005), this paper will cast serious doubt on the conventional argument that East Asian countries share numerous common traits in their welfare provision systems and can thus be classified as a single welfare state model. In addition, it will argue that the existing perspectives have a weakness in explaining the recent welfare policy changes in Korea (Section IV).

## II. The Institutional Features of the Korean Welfare State

### **Importance of institutions: policy path dependence and age of system**

From the current studies of comparative social policy, one should note two key concepts concerning social welfare institutions in order to explain and predict the development of the welfare state: policy path dependency and the age of welfare systems. Previous studies of welfare reforms in mature welfare states have revealed not only the characteristics of their political systems, but also the ‘institutional designs of welfare policies,’ which had a significant impact on the different reform results and divergent paths of the welfare systems (Bonoli, 2000; Pierson, et.al, 2001). Clearly, the **path dependence of welfare policies** does not necessarily state that all paths of welfare policies are pre-determined and that major changes are practically impossible. On the contrary, welfare policies are path dependent because a specific social policy has a strong tendency towards inertia which reinforces its own institutional features. Thus, if a welfare scheme firmly establishes itself with unique features at a certain point in time, the scheme, since that point, has a powerful tendency to preserve and extend its features and to resist change.

The **age of social security** is one of the most crucial factors in explaining the differences in public welfare spending among different countries. As Wilensky has argued, in his classic contribution, once social security programmes are established, they produce more welfare spending as the programmes move towards wider coverage and more benefits (Wilensky, 1974:47). Therefore, partly due to this ‘maturation effect’, pioneers in welfare state development, in a global context, display greater welfare spending than late starters. When applying the maturation effect thesis to welfare state development in developing countries, it is essential to assess the extent of welfare system establishment. If the welfare programmes are sufficiently firmly established to resist retrenchment pressures resulting from various socio-economic and political changes, inertia in terms of coverage extension and the maturation effects of the programmes can be expected.

For reasons that will be examined in the latter part of the paper, the basic institutional frameworks for a comprehensive welfare state were firmly established in Korea during the financial crisis. It seems that the frameworks will not change radically and return to the system in operation at the previous stages of the crisis. Therefore, it is reasonable to expect the maturation effects of the

welfare programmes to become evident. Now that the reasons for examining the institutional aspects of welfare state developments have been presented, the next section will discuss the key features of the Korean welfare state arrangements. This discussion will be divided into three segments: integrated social insurance programmes, public assistance and social services, and the trends in social expenditures which reflect the development and maturation of those programmes.

### **'Integrated' social insurance programmes**

Throughout the history of welfare state evolution, the trans-national communication of welfare ideas on the international level has played an important role in the development of welfare institutions in individual countries. It is well known that the international diffusion of the two key models, the Bismarckian type of earnings-related contributory social insurance system and the Beveridgean type of flat-rate tax-financed social protection system, have greatly contributed to the development of welfare systems in both developed and developing countries.

Korea, as a late industrializing nation, benefited from the global diffusion of welfare ideas. Ever since the initiation of its welfare system, Korea has adopted a strong Bismarckian type of social protection as the core of its welfare state arrangements, a concept which originated in Europe and was later seen in Japan. According to one observation, the characteristics of the Bismarckian model are summarised as follows: "Bismarckian social policies are based on social insurance; provide earnings-related benefits for the employees; entitlement is conditional upon a satisfactory contribution record; and financing is mainly based on employer/employee contributions" (Bonoli, 1997:357). All these general features broadly mirror those of Korean social insurance systems. However, the Korean model has a significant difference from the typical Bismarckian model in terms of its mode of insurance coverage. As the existing literature shows, (Esping-Andersen, 1990: chap.3; Baldwin, 1990), the typical Bismarckian social insurance models found in continental Europe have unique features of strongly fragmented social insurance coverage, provided according to occupation. As Esping-Andersen has argued (1990:58-61), the fragmented model creates and strengthens status-differentiation by providing specific occupational groups with 'welfare privileges'. Thus, in the fragmented social insurance model, social solidarity is confined to a specific group. Social insurance in Korea, however, covers all occupational groups under a single umbrella, with the exception of public pensions that have some characteristics of the occupational scheme. Therefore, in the 'integrated' social insurance system, the basis of social solidarity is wider



than the fragmented system, making the 'stratification effect' much weaker. In order to examine such an assertion in detail, this paper will focus on the two main sources of welfare expenditure: health insurance and pensions.

Korea first introduced **national health insurance** in 1977 and it initially covered firms with more than 500 employees. Subsequently, Korea was able to accomplish universal health coverage in 1989 by extending it to the urban self-employed. When Korea first adopted its health insurance system, it conformed to the typical Bismarckian model. Multiple health insurance societies with different contribution rates and independently managed funds were established according to different occupational groups and geographical areas. Before the commencement of health care reform in 1998, there existed about 420 medical insurance societies. However, under the Kim Dae-Jung government (1998-2002), these occupation and region-based health insurance societies were finally incorporated into a national single payer system with one fund and were managed by a public agency.

Throughout the course of social insurance development in the West, the incorporation of occupationally fragmented social insurance into a more integrated fund caused severe conflicts among different interests, occupational groups, and classes (Baldwin, 1990). During the process of merging insurance funds, Korea also witnessed heated debates and conflicts between different interest groups advocating or opposing the introduction of a single insurer (Kwon, S.M., 2003; Wong, 2004). Although conservative labour unions<sup>1</sup>, major newspapers, business circles, and the opposition party were strongly against the integration of the medical societies, the Kim government received strong support from progressive labour unions and civic groups, and was able to shift to the single payer system. It is important to note that the influence of political and social forces opposing the new system has been weakened significantly following the establishment of the new single system, and thus the possibility of returning to the old fragmented health care system is negligible. In other words, the integrated health insurance system has become a firmly established core feature of the Korean welfare state.

There are four **public pension schemes** in Korea. Three of them are occupational pensions, covering respectively civil servants, military personnel, and private school teachers, and are based

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<sup>1</sup> There are two main opposing national trade union organizations in Korea: the Federation of Korean Trade Unions (FKTU), and the Korean Confederation of Trade Unions (KCTU). FKTU has traditionally represented conservative policy orientation, and supported the fragmented social insurance system. In contrast, KCTU represents progressive policy orientation and has been a strong advocate of the integrated social insurance system.

on the fragmented Bismarckian model. Naturally, these schemes feature fragmented coverage according to the strict principles of earnings-related contributions and benefits. However, the **National Pension Scheme** (NPS), which is the general pension scheme in Korea, covers the vast majority of occupational groups and illustrates two institutional features significantly diverging from the typical Bismarckian model.

First, the degree of occupational segmentation in the NPS is significantly weaker compared to that of the western Bismarckian model. The majority of the occupational groups, including white collar workers, blue collar workers, farmers, and the urban self-employed, are covered within the NPS. Although counter-arguments may claim that the separation of the three special schemes from the NPS disproves the occupationally integrated nature of the NPS, such a degree of segregation is relatively mild compared to other welfare states. The average number of occupationally distinct pension programmes, representing the degree of stratification in old-age income security, is 8.4 in ‘corporatist’ welfare states<sup>2</sup> in continental Europe and Japan (Esping-Andersen, 1990:70). The number of special schemes in Korea is only three. Therefore, Korea’s public pension systems are rather more occupationally inclusive than other Bismarckian welfare states.

Second, the amount of pension benefit determined in the NPS not only depends on the average lifetime income of the individual subscriber (an earnings-related part), but also on the average income of all NPS participants (a flat-rate part)<sup>3</sup>. Because of this Beveridgean element in the benefit formula, which is the flat-rate part, the NPS should not be considered as a typical Bismarckian type insurance model. However, the NPS can still be categorized as a social insurance system because benefit entitlement is strictly contingent upon contribution records, not upon residence period or working history, which is common for the Beveridgean model. In short, despite the three privileged pension schemes and the flat-rate element in the NPS benefit formula, the NPS can be defined as an integrated social insurance system.

The NPS initially started with the mandatory coverage of firms with more than 50 employees in 1988, and achieved ‘nominal’ universal coverage in 1999. In the process of achieving such universal coverage as an occupationally integrated social insurance pension, the NPS underwent

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<sup>2</sup> The corporatist welfare states include Austria, France, Germany, Italy and Japan. These countries are ‘Bismarckian welfare states’ because fragmented social insurance systems are the main foundation of their welfare state arrangements.

<sup>3</sup> For further information on the combination of earnings-related components and flat-rate components in the NPS benefit formula, refer to Kim & Kim (2005: 211-2), National Pension Corporation (2005).

two crises (Kim & Kim, 2005). The most serious crisis erupted during the financial crisis in mid-1999 when the NPS extended its mandatory coverage to the urban self-employed, constituting approximately 9 million people – workers employed in small businesses and non-standard workers. Roughly half of the targeted NPS applicants did not report their earnings, mostly due to the economic deterioration and mass unemployment caused by the financial crisis, and because of the expansion of conventional distrust in government policies and the NPS. Furthermore, among the 4 million who did report their earnings, a significant number of high-income self-employed professionals, such as medical practitioners and lawyers, were suspected of serious under-reporting<sup>4</sup>.

In an ‘integrated’ social insurance pension with a strict principle of earnings-related contributions and benefits, massive under-reporting by a majority of the self employed causes serious problems for the legitimacy of the scheme, especially for wage-earners. Such actions result in a serious distortion of the income transfer mechanisms between the two occupational groups. Consequently, because of such massive under-reporting, wage-earners who were already existing members of the NPS were expected to suffer a loss in the amount of their future pension. During this time of chaotic transition, conservative interest groups, such as the Federation of Korean Trade Unions (FKTU), the opposition party, and major media groups, called for the separation of the NPS fund into a wage-earner fund and a self-employed fund (Kim & Kim, 2005:220-221). Moreover, several influential politicians of the ruling party strongly urged the government to either separate the fund or to withdraw the extension policy. However, the Korean Confederation of Trade Unions (KCTU), civil organizations and the Ministry of Health and Welfare firmly objected to the division of NPS funds in the interests of social solidarity. In parallel to the establishment of national health insurance, the proponents of the solidaristic pension system claimed victory after much heated debates and conflicts of interest. Indeed, since the fund separation debates in 1999, there have been no political or social threats to the integrated nature of the NPS.

The NPS had to face its second challenge during the two pension reform processes in 1997-98 and in 2003-2004. Two critical issues needed to be examined during these two periods (Kim & Kim, 2005; Yun, S.M., 2005: 12-15). One was the radical reduction of benefit levels in the NPS from 70% to 60%. The other concerned the split of the NPS benefit formula into a basic pension, based

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<sup>4</sup> When the NPS extended its coverage to the urban self-employed and non-standard workers in small businesses during mid 1999, they reported an average income that was only 58% of the income reported from existing regular wage-earners (Kim & Kim, 2005).

on the Beveridgean model, and an earnings-related pension. This latter development was associated with the transformation of the basic structure of the NPS: the introduction of a basic pension based on the Beveridgean concept signified a paradigm shift for the NPS.

In general, there are two kinds of basic pension model : a contributory basic pension (i.e., the UK, Japan), where benefit is paid on a flat-rate basis by fulfilling the required contribution periods, and a tax-financed basic pension, where pension entitlements are given not according to contribution records, but according to the period of residence. During the 1997-98 reform process, the government's official pension reform committee submitted a radical NPS reform plan, which was supported by the Presidential Office of Korea (the Blue House). The plan was to introduce a 'contributory' basic pension and to drastically reduce the NPS benefit level from 70% to 40%. These proposals, although supported by business circles and economists, were highly controversial and faced strong political resistance from civic groups and labour unions. Ultimately, the benefit level was reduced from 70% to 60%; however, the attempt to adopt a basic pension, financed by contributions, failed (Kim, Y.M., 2005a). Attempts by political and social groups to establish a 'contributory' basic pension ceased following the reform period.

The second pension reform process, which began in 2003 and is still in progress, was proposed by the government and ruling party, which submitted an NPS reform bill focused on a substantial curtailment of the benefit level, from 60% to 50%. This bill was introduced in response to a proposal initiated by the conservative opposition party, the Grand National Party, which had requested the implementation of a basic pension plan financed by general taxes. The aim of the reform bill was to alleviate future financial strains caused by the 'high' benefit level of the NPS, and by the rapidly ageing population. However, the bill faced strong resistance from the conservative opposition party as well as from civil society and the labour movement on account of its radical reduction of benefit level (Kim, Y.M., 2005b). In opposition to the government reform plan, the conservative party proposed a bill in late 2004 to introduce a tax-financed, pay-as-you-go basic pension, which differs from the proposals for a contributory funded basic pension plan. The chief motivation for proposing a tax-based basic pension was to reduce the gaps in pension coverage<sup>5</sup>, and to secure the financial sustainability of the NPS funds. However, a substantial budgetary increase will need to be allocated for the implementation of such a tax-financed basic

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<sup>5</sup> As we will see later, roughly 5.46 million people (1/3 of the participants) were excluded from the NPS, even with the coverage extension policy. If a tax-based basic pension is introduced, such gaps in NPS coverage will be dramatically reduced.

pension<sup>6</sup>, making the possibility of the viable policy alternative impracticable in the near future. Nonetheless, this bill is gaining support from civil society and the labour unions, who see it as the most viable alternative in terms of reducing coverage gaps.

Although there exist profound disagreements over the tax-financed basic pension scheme, the possibility of the implementation of such a bill should not be neglected. What impact does this bill have on the future of an occupationally integrated NPS, and on the Korean welfare state? Logically, the basic framework of the NPS will be transformed into a two-tier pension scheme that combines characteristics of both the Bismarckian model and the Beveridgean. However, the degree of social solidarity amongst the majority of occupational groups will be strengthened under the new two-tier NPS, as the bill will dramatically reduce the number of occupational groups that are excluded from the current NPS. Additionally, because the tax-based basic pension will go hand in hand with pay-as-you-go financing, the maturation speed of the new NPS will be further accelerated compared to the current NPS's partial funding system. In other words, the introduction of a tax-based basic pension will create a more favourable environment in building a comprehensive welfare state in Korea.

In addition to national health insurance and the NPS, Korea has two other social insurance programmes for wage-earners: **Industrial Accident Compensation Insurance (IACI)**, and **Employment Insurance (EI)**. Both IACI, established as the nation's first social insurance in 1964, and EI, which started in 1995, were designed as social insurance systems, relying on earnings-related contributions and benefits. However, the coverage of these systems was not divided into different occupational categories; all wage-earners, including white-and blue-collar, skilled and unskilled labourers, were incorporated within the schemes. Thus, the two labour insurance programmes, as in the case of health insurance and the NPS, can be defined as occupationally integrated social insurance systems.

In the early period following their introduction, IACI and EI experienced no serious attempts to modify their basic design as integrated social insurance systems. The Ministry of Finance of Korea endeavoured to privatise IACI in 1995, but failed as it provoked massive resistance from various labour movements. Recently, Korea's unprecedented mass unemployment and the polarization of the labour market have accelerated both systems' efforts to extend coverage to those who have

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<sup>6</sup> The estimated total budget for the proposed bill varies greatly according to its design. However, it is estimated that approximately 1% or 1.5% of GDP will be required in the initial stage of its implementation.

been excluded from social protection systems: part-time workers, and temporary and daily workers employed in small businesses etc, (Lee, W.D. et. al., 2004).

A fifth social insurance programme in Korea, **Long-term Care Insurance (LTCI)**, is expected to be initiated in 2007. Detailed plans regarding specific contribution rates and range of services are now under discussion (SunWoo, 2004); however, the basic structure has already been settled. LTCI will cover all occupations with a single scheme and will be financed both by compulsory contributions from members of the national health insurance scheme and by public subsidies from the state (TFLCS, 2004). In other words, LTCI will be implemented as an integrated social insurance model parallel to other social insurance programmes in Korea.

The institutional features of the Korean social insurance systems have been reviewed thus far. The next section will focus on examining the characteristics of non-social insurance programmes, such as public assistance and social welfare services

### **Social assistance and welfare services**

The **social assistance programme** provides coverage for those who are unable to work due to old age and disabilities. This programme is one of the main social protection systems in Korea, along with the four main social insurance programmes. The poor relief programme, established in the early 1960s, provided livelihood protection, medical assistance and institutional care to those in absolute poverty. However, due to the increase in the numbers of destitute created by mass unemployment following the foreign currency crisis, the programme was completely reorganized and transformed into a modernized public assistance system called the **National Basic Livelihood Security System (NBLSS)**.

The newly-established NBLSS provides the poor with medical, educational and housing assistance and living allowances, and embodies four fundamentally different principles of protection compared to the prior programme (Jung, I.Y., 2004). First, the new system made it clear that enjoying a basic standard of living is a basic civil right; thus, the government has the responsibility of guaranteeing a minimum living standard, even for those who cannot afford it. Second, in the old system, people between the ages of 18 and 60 were assumed to have the ability to work, and were thus disqualified from applying for benefits despite exceedingly low incomes. This was called

the 'demographic criteria.' Under the new programme, however, a basic standard of living is guaranteed not only to those who are unable to obtain employment and produce income, but also to those who are in destitute conditions despite being able to work. Thus, self-support services have been introduced, even for beneficiaries with the capability of working. Third, the NBLSS provides job-training opportunities and small loans to help establish small businesses for self-supporting recipients who are able to work. Fourth, a government committee has been formally instituted to determine official minimum living costs. Under the old system, there was no 'official' measurement of poverty lines and no official organization to determine minimum living costs.

With the unemployment rate soaring to 8.4%<sup>7</sup> in 1999 and income disparities expanding during the economic crisis, a favourable political and social environment for the new social protection system was established. Nonetheless, the new system provoked severe political conflict among the opposing forces either advocating or resisting the establishment of a welfare state (Moon, J.Y., 2002). The campaign for NBLSS was initiated in 1998 by advocacy networks consisting of the majority of civic groups and labour unions.<sup>8</sup> This campaign faced strong opposition even from the Ministry of Health Welfare as well as the Ministry of Finance, which were concerned about the anticipated expansion of the welfare budget. Conservative media and economists criticized the campaign by stating that such a welfare policy would discourage work incentives for beneficiaries capable of producing income and would increase the number of welfare-dependents. They opted for a temporary assistance programme that would increase welfare expenditure only briefly during the time of the crisis, rather than an institutionalized and modernised public assistance programme that would result in the continual expansion of welfare spending. However, the influence of civil society, the presence of the relatively progressive Kim Dae-Jung government (1998-2002), and the negative impact of mass unemployment led to the institutionalization of the modernized social assistance system. Since the new system came into effect in 2001, there have been no significant attempts to threaten the basic design of the NBLSS. Furthermore, a rapid expansion of the number of beneficiaries, along with a considerable increase in the size of welfare expenditure has been witnessed (see next section).

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<sup>7</sup> For the previous three decades, Korea had maintained an unemployment rate of roughly 3 %.

<sup>8</sup> Many civic groups in Korea played a role in establishing the NBLSS. However in particular, the People's Solidarity for Participatory Democracy (PSPD) played a critical role. The PSPD was the first to propose the necessity of a new public assistance system, and greatly influenced the processes of policy-making, legislative drafting, and the monitoring of the system (Moon, J.Y., 2002).

**Social welfare services** that target the demographic groups of the elderly, children, women and the disabled, were the least developed sector compared to other social protection systems. The main beneficiaries of these services were the poorest elderly citizens who received institutionalized residential care as well as the disabled and isolated children who received financial support. In short, social welfare services in Korea were founded on the principle of selectivism, which means that welfare services are provided only to specific groups consisting of those who are exceptionally disadvantaged and cannot survive in the market economy without the help of family members. Such characteristics of the welfare services in Korea reflect its socio-demographic structure, which has a relatively young demographic composition. This composition is based on the traditions of family responsibility for its members, particularly the elderly and the young. The percentage of the elderly over the age of 65 exceeded 7% in 2000. In 2002, only 6.5% of the population over the age of 60 lived on public pensions; 40.1% depended on transfer incomes from their families (KNSO, 2004a). Thus, due to the traditional family-based support system, there was relatively less pressure for the government to expand social welfare services until the mid 1990s.

However, throughout the 1990s, the socio-economic bases that maintained the selective nature of social service provision were rapidly collapsing due to the fundamental changes in the socio-economic environment. The factors contributing to the increasing need for more universal services replacing the family's traditional role as a care provider, are as follows: the gradual decrease in the number of average household members, the weakening of the extended family support system, the increase in female participation in the labour force, the rapid aging of the population, and the lowest birth rate amongst OECD countries<sup>9</sup>. Under such circumstances, Korea started to slowly but decidedly adopt a more universal social service system from the mid-1990s (PCQL, 2003: 117-164; Kim, M.S., 2003). For example, public childcare services that targeted low-income families were extended to cover dual-earning middle-class families. The number of public day care centres has increased from 1,029 in 1995 to 1,329 centres in 2003 (KNSO, 2004b). Furthermore, the new free child care service programme for 5-year-olds, before entering compulsory elementary education, which started in 1999, is gradually expanding to the middle classes. Due to these changes, the government budget for childcare rose nine-fold during the 1990s and will double between 2004 (about 455 billion won) and 2008 (856 billion won)(GRK,

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<sup>9</sup> Korea's birth rate in 2002 was 1.17, which is the lowest figure among OECD members. The recent changes in demography and family structure will be examined in the section III.



2004:148)<sup>10</sup>. Community welfare centres for the elderly, the disabled and women have also increased by over four times to 360 facilities in 2003, from 88 in 1990 (KNSO, 2004b). In addition, the number of workers in social services and public assistance nearly doubled from 3,000 in 1997 to 7,200 people in 2002. Furthermore, the government budget for the elderly has increased over ten-fold: from 46.2 billion won in 1990 to 500 billion won in 2004 (KNSO, 2004a). Medical care facilities for the elderly have increased from 81 facilities in 1997 to 244 in 2002, and the number is expected to increase rapidly before the commencement of long-term care insurance in 2007. In conclusion, the recent changes in family roles and demographic composition in Korea “will result in the expansion of social service sectors as we have never experienced before” (Park, 2005: 23).

### **Trends in social expenditure as a result of state welfare expansion**

The first part of this paper focused on identifying the important features and the changes in the Korean welfare system after the mid 1990s. As previously stated, the existing social insurance systems were firmly established on an occupationally integrated model, and the former poor relief programme was transformed into a more modernized social protection system for the disadvantaged. Social welfare services are gradually breaking away from their original selective nature in service provision. Given these facts, the following section of the paper will focus on the extension of coverage and benefit levels in Korea’s welfare systems after the mid 1990s and it will also examine how such developments resulted in a formidable growth in social expenditure within an exceptionally short period of time.

Besides the 1999 coverage extension to all citizens in the NPS, there have been three major changes in social insurance coverage since the mid 1990s. The first was the extension of coverage to workers employed in small businesses through EI and the IACI scheme. Before the outbreak of the financial crisis in November 1997, IACI covered firms with more than 5 workers, and EI covered workplaces employing more than 30 workers. Between 1998 and 2000, however, both programmes extended their coverage to workplaces employing at least one worker. Second, the standard for covering non-standard workers was modified. Prior to the amendment of the EI law in 1998, benefits were not given to part-timers working less than 30 hours a week. Temporary and daily employees working less than 3 months were also excluded from EI benefits. However, the

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<sup>10</sup> However, the private market-based provisions of social services, particularly childcare services, also greatly expanded during the 1990s (see the latter part of the paper).

minimum number of working hours for compulsory coverage has been reduced; part-timers who work more than 18 hours a week, and temporary and daily employees hired for more than one month are now covered by EI. The third change, which was introduced in 2001 and will be completed in 2006, aims to reduce widespread contribution evasion by the employers of marginal workers and small businesses and to provide equal access to health insurance and the NPS for irregular and small business workers. Due to the technical difficulties in applying a contributory social insurance model<sup>11</sup>, in health insurance and the NPS, millions of irregular workers and small business employees are classified as ‘individually insured persons,’ meaning that the individual has to pay the entire contribution payment without support from employers. ‘Workplace based insured persons,’ on the other hand, share their contribution payments with their employers equally. Thus, because of the economic burden on low-income marginal workers, the government initiated this project to convert eligible ‘individually insured persons’ to ‘workplace based insured persons’.

The expansion of coverage extension policies significantly increased the total number of insured persons in social insurance programmes. The number insured by EI was greatly expanded from 3.3 million to 4.3 million in 1996 and to 7.2 million in 2003. IACI coverage figures also rose: to 10.5 million in 2003 from 8.1 million in 1996 (ML, 2004). In addition, the NPS increased the number of those insured from 7.8 million in 1996 to 17.2 million in 2003. (But millions of uninsured workers are still reluctant to pay pension contributions. See section III).

Along with the extension of insurance coverage, there was an increase in benefit levels, and adjustments to the eligibility requirements for social insurance benefits (PCQL, 2003:72-116; Lee, W.D. et. al., 2004). The IACI scheme changed its policies slightly by increasing the minimum level of compensation for suspended employment, and introducing nursing allowances to workers who need assistance following medical treatments. EI was more generous: the minimum contribution period was reduced from 12 months to 6 months, the job-seeking allowance increased from 50% of the minimum wage to 90%, and the benefit duration was extended from 30-210 days to 90-240 days. In the case of health insurance, the introduction of a single rate contribution system significantly advanced the equity of contribution rates between the rich and the poor, and the NPS managed to reduce its minimum contribution period from 20 years to 10 years. The only

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<sup>11</sup> For a contributory social insurance system to be applied successfully, labour contracts, which are essential for identifying eligible candidates and calculating premiums, need to be accurately reported by the employer. However, due to the malpractice of overlooking labour contracts in small workplaces, millions of marginal workers in an estimated 2.7 millions workplaces were excluded from the two main social insurance systems in 2002 (KNSO, 2003).

retrenchment, however, was the income replacement ratio of the NPS pension benefit, which was reduced from 70% to 60% by the 1998 pension reform legislation (Kim & Kim 2005).

Although the new public assistance programme (the NBLSS) came into effect in 2001, the total number of the beneficiaries has remained around 1.4 million, which is approximately 3% of the total population. Nevertheless, the extensive expansion of beneficiaries receiving living allowances, housing benefits, and medical assistance benefits have greatly contributed to the rapid rise of the social assistance spending (see table 1 below).

Compared to the modifications in social insurance and public assistance programmes, the changes in social services were not so significant. Nevertheless, as mentioned before, there was meaningful movement towards coverage extensions in the social service sector. Deviating from its limited focus on the poorest segment of society, welfare and medical facilities started to provide services to the middle-class elderly and middle-class children. The coverage of existing cash-benefits targeted at specific demographic groups was also extended. In 2001, the number of maternity leave days, which was originally financed by the employer, increased from 60 days to 90 days. It was agreed that EI should finance the increased 30 days of maternity leave. Recently, the government announced that it will gradually finance all costs of maternity leave starting from 2006. Also, in terms of senior citizen allowances, although still focused on the low-income elderly with fairly moderate benefit levels, it has gradually extended coverage from 252,000 beneficiaries in 1997 to 594,000 in 2002. Disability allowance for the low-income disabled has also been extended from 14,000 beneficiaries in 1997 to 45,000 in 2002.

The expansion of state welfare programmes from the mid 1990s to 2001 led to a continual and formidable growth in social expenditure. As Table 1 shows, the absolute figures of welfare expenditures in all the major programmes more than doubled between 1996 and 2001. Moreover, the figure of absolute spending through social assistance expanded three-fold over the same period. Consequently, the share of the total welfare spending in GDP in 1996 was 5.29 %, but increased to 8.70% in 2001<sup>12</sup>.

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12 Additional explanations regarding the trend in welfare expenditure is shown in Table 1. At a glance, the spending trend displays a rapid increase from 1996 to 1998, and then a continual decrease thereafter. Thus, this may not be interpreted as a continual expansion of welfare spending. However, the explosive expansion of welfare spending from 1998 to 2000 was 'very exceptional' and 'over-determined,' due to mass layoffs and mass poverty induced by the aftermath of the financial crisis post November 1997. For example, the sharp increase in social insurance spending in 1998 and 1999 was mainly caused by the sudden increase of two special pensions for private teachers and civil servants. Due to structural adjustments in the public sector, a significant number of public employees left their

**Table1. Status of Social Expenditure by Institutionalized Programmes**

(Unit: Billion Won, %)

<b>Programmes</b>	<b>1990</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Social insurance	3,687	10,973	12,865	18,202	22,929	18,820	21,808
Social assistance	861	1,780	2,077	2,512	3,353	3,810	5,265
Welfare services	1,103	3,578	4,446	5,799	7,090	6,657	6,701
Company welfare	1,797	5,742	9,786	21,622	13,636	18,090	13,874
Total expenditure(a)	7,591	22,142	29,270	48,629	47,179	4,7648	47,995
(a) /GDP ratio	4.25	5.29	6.46	10.86	9.77	9.13	8.70

Source: Gho, K. et.al. (2003:196-197)

Notes: 1) Company welfare includes spending on the compulsory retirement allowance, paid maternity leave and paid sick leave.

The continual and astonishing expansion of welfare expenditure is in correlation to the three trends in the Korean social protection system. Such trends include the extension of coverage and the maturation of the integrated social insurance programmes, the birth of a modernized public assistance programme, and the tendency to gradually break away from selective welfare services. Based on future governmental financial plans for welfare expenditure in Korea, it is highly likely that these three trends will continually move Korea towards a much more comprehensive welfare state. According to the five-year national fiscal operation plan for 2004 to 2008 that was officially

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workplaces with lump-sum pension withdrawals (the three occupational pension schemes of Korea allow lump-sum withdrawal), which led to a rapid increase in pension spending. Such reasons are also applicable to explain the trend of company welfare expenditure in Table 1. The mass layoffs in the private sector greatly increased spending on the mandatory retirement allowance (MRA) - three times more in 1998 compared to 1997. (In Korea, under the Labour Law, employers must pay lump-sum retirement allowances to workers when they retire or leave firms. Along with the national pension, the MRA is a main income maintenance programme for private sector workers. See Kim & Kim (2005)). The sudden increase in mandatory company welfare spending in 2000 was also related to the MRA. The amendment of the Labour Law in 1999 allowed workers to withdraw their MRA without leaving or retiring from their workplaces, and many workers withdrew their lump sum MRAs. Finally, temporary labour market measures, including public works for the unemployed, rapidly increased spending on welfare services in 1999. In conclusion, considering the irregularity of economic and labour market situations between 1998 and 2000, an assertion that the welfare expenditure trend shows a continual expansion from the mid 1990s is reasonably convincing.

published by the Government in 2004<sup>13</sup>, the annual average increase in the rate of social welfare expenditure will be 12.2% by 2008. Such figures are the highest of all government spending items and roughly twice as large as the annual average increase in total government spending (6.7%). Furthermore, welfare expenditure will be expanded to 51.2 trillion won<sup>14</sup> in 2008, making it the largest single expense, followed by education spending (33.3 trillion won). Also, another conservative estimation of future welfare expenditure using the OECD standards on welfare expenditure classification shows that the total welfare spending of Korea in the year of 2015 will attain the US's level of spending in 2001 (15.2% of GDP), and the 2001 level of Japan in 2020 (17.5% of GDP) (Choi, K.S., 2005), if the present trends continue<sup>15</sup>.

In conclusion, through political conflicts among related groups, including the government during the financial crisis, Korea has consolidated a social welfare system with institutional characteristics. This is evidenced by the firm establishment of integrated social insurance systems and a modernized public assistance system, and the definite move away from the selective nature of its earlier public social services provision. With the exception of welfare spending between 1998 and 2000, the continual expansion of welfare spending after 1996 was closely related to coverage extensions and the maturation of welfare institutions established during the financial crisis.

Thus, it is possible to argue that Korea has moved to a more comprehensive welfare state following the financial crisis. If that were the case, it is plausible to agree that Korea will make continuous progress to a mature welfare state in the future, despite the emerging socio-economic conditions of the 21<sup>st</sup> century. Based on the logic of path-dependency and the maturation effects of social security, will the institutional features of the Korean welfare state strengthen their comprehensiveness? Or will the features be weakened and distorted under the pressures of a post-industrial society and economic globalization? The next section will deal with these questions.

### **III. Pressures from the labour market, demographic changes, and democratisation**

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<sup>13</sup> The Ministry of Planning & Budget (MPB), in charge of the formulation of national budgets, as well as coordination of the overall national budget organized this plan. Due to the rather market-oriented characteristic of the MPB, the plan was conservative in its approach to expanding welfare spending. Thus, the five-year national fiscal operation plan can be considered quite feasible in its plans for welfare spending.

<sup>14</sup> This figure does not include mandatory company welfare spending, which was 13.8 trillion won in 2001 (see Table 1). If such spending is included, this figure will be much larger than 51.2 trillion won.

<sup>15</sup> This estimation does not consider the possible introductions of new programmes, and excludes some compulsory company welfare benefits.

Since the mid 1990s, Korea has experienced fundamental socio-economic and political changes that have broken down the traditional ‘developmental state’ approach to governance. A successful transition towards political democracy was achieved with the inauguration of the Kim Dae-Jung government (1998-2002), and a drive for rapid economic globalization, provoked by the financial crisis in 1997, impacted on wider Korean society. Most critically, the ageing of the population increased at an unprecedented rate, and the birth rate declined markedly. Such issues became critical on the national agenda in 2000, and led to the re-examination of the existing social and economic policies – a re-examination that will greatly influence the future path of the Korean welfare state.

### **Globalization and the polarization of the labour market**

Recently, there have been contending views regarding the impact of economic globalization on the welfare state. One view argues that economic globalization will significantly undermine the social and political foundations of the welfare state by weakening autonomy of the nation-state and exerting downward pressure on social protection systems (Mishra, 1999). Another view claims that the effects of globalization are mediated by domestic political and social arrangements, making ‘the race to the bottom’ in social welfare structures most unlikely (Pierson, ed., 2001). The Korean example of welfare state development seems to support the latter view. However, the effects of globalization on the social welfare system in Korea have been shown to be rather complicated.

Contrary to the widespread belief that globalization impacts negatively on the welfare state, previous studies observed that Korea made a definite transition towards a welfare state following the financial crisis<sup>16</sup> (Shin, D.M., 2003:182-192, Ramesh, 2003). As this paper stated in chapter II, Korea’s example represents strong counter-evidence against claims that globalization is antithetical to a strong welfare state. Nonetheless, the weakness of this view is its failure to identify the ‘long-term and indirect effects’ of globalization in the Korean social welfare system. In particular, the perspective fails to perceive the impacts of globalization regarding the **‘polarization of the labour market,’** which has prevented the economy from achieving a universal social insurance system.

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<sup>16</sup> It is well known that the foreign currency crisis in 1997 served as a major source of momentum accelerating the globalization of the Korean economy.

The widening income discrepancies between different worker categories after 1997 represent the polarization of the Korean labour market. Official statistics show a rise in the Gini coefficient during this period; the figure, which stood at 0.283 prior to the crisis, rapidly rose to 0.316 in 1998, and remained constant at 0.313 until 2004 (KNSO, 2004b). However, in reality, the income gap is more serious than the official statistics suggest. Table 2 shows that there were more severe changes in the degree of income concentration following the economic crisis, more so than the official statistics indicated. The Gini coefficient based on ‘market income,’ rose tremendously from 0.302 in 1996 to 0.374 in 2000, while the Gini coefficient based on ‘disposable income’ experienced a similar shift during the mid 1990s<sup>17</sup>.

**Table 2. The Changes of the Gini Coefficient between 1996 and 2000**

	1996	2000
Gini Coefficient A (Market income)	0.302	0.374
Gini Coefficient B (Disposable income)	0.298	0.358

Source: Yoo G. (2003:10).

Widening income discrepancies reflected the polarization of the labour market between large and small companies, and between standard and non-standard workers. Prior to the mid 1980s, income gaps proportionate to the size of the company were not significant. In 1987, for example, the average income gap between a worker in a medium-sized enterprise with 30 to 299 employees and a worker from a large company employing over 300 workers, was merely 0.53 percent. However, the relative wage level fell to 74.2 percent in 1997, and again to 66.2 percent in 2003 (MOL, various years). The same pattern also applied to fringe benefits gaps. Although the average company welfare spending per worker according to company size<sup>18</sup> showed little difference in

<sup>17</sup> The Gini coefficient, from government official statistics, is measured by surveys of urban households (*Annual Report on the Household Income and Expenditure Survey*). However, these surveys exclude rural households and one-person households in urban areas from the samples. Thus, the official statistics fail to reflect the exact status of nationwide income distribution. But the Gini coefficients in Table 2 were measured on nationwide surveys conducted every five years including urban single households and rural households (*National survey of Household Income and Expenditure*). Thus, Table 2 shows more reliable results than the official statistics in measuring income distributions in Korea.

<sup>18</sup> Company welfare spending refers to the average non-cash payments to workers, including social insurance contribution expenses, mandatory retirement allowances, voluntary fringe benefits, educational & training expenses, and other labour expenses.

1987, medium enterprises reduced their spending to 64.8 percent of large companies' welfare expenditure in 1997, and then to 55.8 percent in 2003 (MOL, various years).

Similar polarization trends were observed in the wage gap between standard and non-standard workers. Although there are disagreements on defining the non-standard worker in Korea (Ahn, 2004; Kim, Y.S., 2005), the number of non-standard workers defined as 'temporary workers' and 'daily workers'<sup>19</sup> rapidly expanded after the economic crisis. The percentage of non-standard workers in the total labour force stood at 45.7 percent in 1997 (about 6.12 million), but dramatically peaked at 55.5 percent in 2002 (about 7.32 million), before decreasing to 48.8 percent in 2004, although the figures slightly declined to 7.27 million (KNSO, 2005c). Along with the increasing number of those in non-regular employment, the wage gap, reflecting the relative level of wages comparing non-standard jobs to regular jobs, also widened. The wage gap was 53.7 percent in 2000, and widened slightly to 51.0 percent in 2003 (Kim, Y.S., 2004).

What does the polarization of the labour market imply for the future of the Korean welfare state? As mentioned before, Korea's four social insurance programmes are strongly based on the Bismarckian tradition of earnings-related contributions and benefits. A bigger wage gap will force lower income beneficiaries to avoid contribution payments due to individual economic burdens. Thus, the economic foundation of the integrated social insurance system will be undermined by the polarization of the labour market. Also, such trends could act as a critical barrier to achieving universal social insurance coverage. The combination of both outcomes could result in the exclusion of low-income families from social protection systems, and further accelerate the stratification of the rich and the poor in the social insurance system.

Table 3 shows the discrepancy between standard and non-standard workers in the coverage of three social insurance programmes in the early 2000s. In 2003, the national insurance and the national pension programmes nearly established a universal coverage with a 97 percent participation rate for standard workers. Employment insurance has also been steadily approaching universal coverage for standard employment. However, the same programmes show an extremely low coverage rate from 19.3 percent to 28.9 percent for non-standard workers.

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<sup>19</sup> According to the guideline for *the Economically Active Population Survey*, 'temporary employees' are defined as workers with employment contracts for longer than one month but shorter than one year. 'Daily workers' are defined as workers with employment contracts for less than one month.



**Table 3. Coverage of Social Insurance Programmes by Employment Status (2003)**

(Unit: %)

	National Pension Scheme (NPS)				Health insurance				Employment insurance			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Wage earners Total	49.5	51.8	52.3	57.7	52.1	54.3	55.1	59.5	44.1	46.9	47.4	49.8
Standard Workers	88.0	92.7	92.2	96.6	90.7	94.8	94.6	97.6	74.2	80.0	79.1	79.5
Non-standard Workers	22.1	19.3	21.5	26.4	24.6	22.2	24.8	28.9	22.6	20.7	23.2	26.0

Source: KNSO (2004d)

However, several points should be added to fully understand the real impact of low coverage on non-regular workers. First, non-standard workers whose workplaces do not provide them with insurance coverage may opt to assume the status of ‘individually insured person.’ This status allows non-standard workers to be covered by health insurance and the NPS. In other words, non-standard ‘wage-earners’ who do not qualify as a ‘workplace based insured person’ can join the NHI and NPS as an individually insured person. Thus, the actual coverage level of non-standard workers should be somewhat higher than the figures in Table 3. According to my previous study based on the data from the ‘*National Survey of Household Income and Expenditure*’ of 2000, households with non-standard workers as the breadwinner showed an 89.5% coverage rate for health insurance, and 48.3% for the NPS (Kim, Y.M and Kim, J.K., 2003). In addition, as shown in the third line of Table 3, the level of coverage in all three programmes slightly increased during the early 2000s, caused by government efforts to extend coverage to non-standard workers (refer to p.15 of this article). In conclusion, the actual levels of social insurance coverage of non-standard workers are much higher than the figures in Table 3.

Among the four social insurance programmes in Korea, the NPS has the lowest coverage rate and is affected most by the negative impacts of the polarizing labour market. Among the 16.45 million NPS participants, roughly 5.46 million (around 33 % of the total NPS members) refrain from paying their contributions (Kim and Kim, 2005: 219). Consequently, only 67% of the pension target group has NPS coverage, which is based on active contributions. Most of these non-contributing members are non-standard workers, low-income earners who are employed in small

workplaces, and the self-employed in small scale businesses. These groups are the most vulnerable under the increasingly polarized labour market, and face financial difficulties in paying contributions to the national pension scheme. Nonetheless, despite the trend towards polarization in the labour market, the three main social insurance programmes - health insurance, EI, and IACI - are likely to preserve their features as integrated social insurance programmes. The NPS, however, is facing difficulty in maintaining the institutional characteristic of an occupationally inclusive system due to increasing coverage gaps.

Another effect of the polarization of the labour market is an increase in absolute poverty in Korean society. According to Yu, the percentage of families in absolute poverty with a disposable income of less than 40 percent of the national median income has risen to 11.53 percent in 2000 from the 1996 figure of 7.65 percent (Yu, K. 2003). Such a phenomenon has resulted in the strengthening of poverty support provisions in the Korean public assistance system. The government recently announced that it will increase the number of NBLSS beneficiaries by sixty thousand. Also, the government presented an Emergency Relief Bill to the National Assembly, which aims to alleviate poverty in lower income groups. In short, the polarization of the labour market has resulted in the strengthening of public assistance programmes.

### **The pressures of the changing demography and household structure**

Along with the changes in the employment environment, the transformation in demography and family structure are the main post-industrial pressures on a mature welfare state (Pierson, 2001; Esping-Andersen, 1999: chap 3). Recently, the Korean welfare system has been gradually influenced by the rapid changes in population composition and the transformation of household structures.

Three major trends can be found in the **transformation of demography and family structure** in Korea. The first is the rapid ageing of the population. Korea was one of the youngest countries until the mid 1990s; only 5.7 percent of its population was aged over 65 in 1994. Currently, although the demographic structure is still relatively young, the speed of ageing is significantly faster than in any other country. According to a population projection report (KNSO, 2001), Korea is expected to become an aged society in 2019, meaning that more than 14 percent of the population will be aged over 65. By 2026, Korea will become a super-aged society, in which 20

percent of the total population will consist of people aged 65 and over. Furthermore, it will take Korea only 19 years to move from an aging society to an aged society, and 7 years to move to a super-aged society from an aged society. As shown in Table 4, such a rate of population ageing is faster, relatively, than in Japan or in any other industrialized country. If the present trend continues, the proportion of the population over the age of 65 will reach 23.1 percent in 2030, which is similar to that of OECD countries (KNSO, 2001).

**Table 4. Speed of Ageing in Selected OECD Countries**

Country	Aging Society (7%)	Aged Society (14%)	Super-aged Society (20%)	Years Taken	
				7%→14%	14%→20%
France	1864	1979	2020	115	41
USA	1942	2013	2028	71	15
Italy	1927	1988	2007	61	19
UK	1929	1976	2020	47	44
Japan	1970	1994	2006	24	12
Korea	2000	2019	2026	19	7

Source: KNSO (2001)

Note: Percentage in bracket means ratio of people over 65 to the total population.

A second major change is the drastic decline in the fertility rate. The average fertility rate, which was 2.73 in 1980, dropped to 1.47 in 2000, and to a record low of 1.17 in 2002 (See Table 5). The figure of 1.17 in 2002 is lower than Japan's 1.29 in 2002 and Spain's 1.22 in 2000, which were recorded as being the lowest fertility rates among OECD countries.

**Table 5. Trend of the Total Fertility Rate in Korea**

Year	1970	1980	1990	1995	2000	2001	2002	2003
T.F.R	4.51	2.73	1.58	1.64	1.47	1.30	1.17	1.19

Source: KNSO (2004b)

The third trend is related to the gradual decline in the traditional function of the family as caregiver. It is evident that day-to-day family care functions, such as childcare, senior citizen support, and family services, have been gradually weakening throughout the 1990s. The average

numbers of household members dropped from 3.7 in 1990 to 3.1 in 2000. The crude divorce rate (number of divorces per 1,000 persons) increased by over 3 times, from 1.1 cases in 1990 to 3.5 cases in 2003. The percentage of one-person-households increased sharply from 9.6 in 1990 to 15.5 in 2000 (KNSO, 2004b; 123-136). The percentage of female-headed households also continued to grow, from 15.7 percent in 1990 to 18.5 percent in 2000. The female participation rate in economic activities increased from 47.0 percent in 1990 to 48.9 percent in 2003, and the number of employed married women increased by 1.29 million: the figures read 5.57 million in 1990, and 6.86 million in 2003 (KNSO, 2004b). Such changes have clearly weakened the traditional care-giving functions of the Korean family.

As these changes accelerate, it is evident that the care-giving functions of the traditional Korean family, especially to the elderly and children, will weaken. In response to post-industrial pressures from demographic and family transitions, two contradicting social policy responses have emerged. One response advocates the extension of coverage and benefit levels in existing welfare schemes, and the introduction of new programmes. In practice, social policies targeted to support senior citizens and working mothers combining work and family life have expanded. Such policies include the rapid extension of childcare programmes, maternity leave benefit reforms, and new social and health care measures for the elderly. These trends are mainly taking place in the social welfare and health service sectors, and will be maintained due to the weakening of family ties and the rapid speed of ageing. Such developments have been reflected in the government fiscal operation plan until 2008; the social expenditure rate for children, working women, and senior citizens increased the most among all the spending items, including welfare spending (GRK, 2004).

Since the late 1990s, private provision in the form of childcare and elderly care services has been rapidly increasing, along with the expansion of public provision in the social service sector. For example, the number of total daycare centres has increased from 9,085 in 1995 to 24,412 in 2003. However, the number of public daycare centres increased by only 300: from 1029 centres to 1329, while the number of private daycare centres increased by 14,608, from 7,969 to 22,577. The total number of children in daycare centres in 2003 was 858,345; approximately 100,000 children attend public daycare centres, accounting for 12.1 percent of the total, while 744,480 children, consisting

of 86.7 percent of the total, attend private daycare centres.<sup>20</sup> In addition, private residential care for senior citizens has been gradually increasing.

The other response induced by the rapid ageing of society appeared in the national pension system, and this is the only major retrenchment in state welfare programmes following the financial crisis. Aiming to increase the long-term financial sustainability of the NPS, benefit levels were reduced from 70 percent to 60 percent in the 1998 pension reform (Kim & Kim, 2005). In 2004, the Korean government submitted another pension reform bill, attempting to cut the benefit level to 50 percent on the grounds of reducing the possible financial burden of an ageing society. This bill has provoked strong opposition from different interest groups and is currently at a standstill (Yun, S.M., 2005, Kim, Y.M. 2005b).

The continuing transitions in demographics and family structures can either be a challenge or an opportunity for the development of the Korean welfare state. However, since the mid 1990s, most social policy sectors, excluding benefits reduction in the national pension system, have seen a move towards a more comprehensive welfare system. Clearly, these expansionary trends will continue as Korean families become more unstable, and the population ageing process advances.

### **The effects of democracy after democratisation**

Some scholars have noted that the transition to democracy in Korea, which followed the demise of the authoritarian regime in 1987, functioned as the political foundation that facilitated the development of state welfare during the 1990s (Seong, K.R., 2002; Wong, 2004). Clearly, the process of democratisation greatly contributed to the expansion of welfare in Korea.

One of the two major impacts of democratisation on Korea's welfare system was the support for welfare programmes by political parties as a strategy to win votes. As party competition increased after 1987, political parties fervently campaigned for the introduction of new welfare programmes and an increase in welfare expenditure in order to gain political support. Such practices resulted in a favourable political environment, which led to the expansion of state welfare programmes during

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20 There are four main types of daycare facilities in Korea: 1) Public daycare centres set up and operated by the central and local governments; 2) Incorporated childcare centres regulated by the government; 3) Home-based childcare facilities operated by individuals at their homes (small-scale facilities housing 5 to 20 children); 4) In-house childcare facilities operated by an employer for employees of his/her company. The number of private daycare centres is attained by adding 2) and 3) together. However, childcare fees in private daycare centres are regulated by the government and, thus, the private nature of these centres is equivocal. .

the 1990s. For example, presidential candidate Kim Dae-Jung campaigned for a national single payer system in the 1997 presidential election, adopting the policies of civic groups who advocated the integration of the fragmented medical insurance societies. Following the inauguration of President Kim, the campaign became an official national welfare policy

The second major impact of democratisation was the growth of strong labour movements and influential pro-welfare civic groups that led to the expansion of state welfare. Such pro-welfare forces played a huge role in the expansion of state welfare throughout the 1990s. In particular, influential major civic groups<sup>21</sup> emphasizing progressive state welfare programmes played a critical role in establishing a modernized public assistance programme (NBLSS), an integrated social insurance systems (pension and health insurance), and an expanded public childcare system (Lee H.K, 2005).

However, in order to predict the future of the Korean welfare system, it is critical to note that the democratisation process in Korea has also created powerful market-oriented social forces in the welfare field, along with the pro-welfare social forces. According to Choi (2002), the democratisation process in Korea has been led by conservative social forces, resulting in the dominant empowerment of the conservative mass media and the Chaebol<sup>22</sup> in democratised Korean society. Such conservative forces commonly emphasize the negative effects of increasing tax burdens and social benefits on efficiency and economic growth, and advocate a small government rather than a big one. The Korea Economic Research Institute (KERI), an influential private think-tank supported by large private businesses, eagerly disseminates information on the negative consequences of state-provided welfare, and strongly advocates the privatisation of the NPS and health insurance.

Furthermore, the consolidation of democracy has allowed many interest groups to strongly resist public social policies and convey their own interests in the provision of welfare services. For example, the Korean Medical Association (KMA), which has been the most influential interest group in the medical sector since democratization, strongly criticises the low quality of medical services provided by the state-managed single payer system, and promotes the transition to a

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<sup>21</sup> People's Solidarity for Participatory Democracy (PSPD), Citizen's Coalition for Economic Justice, and Korea Women's Associations United (KWAU).

<sup>22</sup> Korean conglomerates characterized by strong family control, authoritarian management and centralized decision making.

market-based health care delivery system. Private providers in social care services, particularly private childcare providers, also strongly advocate the de-regulation of childcare fees controlled by the government<sup>23</sup>.

However, despite the emergence of conservative forces and interest groups advocating market orientated welfare policies, such developments lack the potential to reverse the process of welfare state establishment. First, the political influence of pro-welfare civic groups and labour movements will prevent the welfare systems from completely shifting towards the market. Second, Korea's integrated social insurance system will deter any sudden attempts towards modification. As Korea's social insurance programmes have integrated the entire population into one system, its ability to resist benefits reduction or privatization is stronger compared to occupationally fragmented systems; the reduction of benefits will be met with opposition from the entire population rather than a certain occupational group. Thus, the integrated social insurance system is now backed by strong political forces that will protect it from retrenchment. Indeed, as party competition becomes more prevalent in democratized Korean society, the possibility of a sudden retreat of welfare policies has lost its feasibility.<sup>24</sup>

In conclusion, the effects of democracy on the development of state welfare are no longer quite as strong compared to the era before democratisation. Although pro-welfare labour movements and civic groups wield considerable political influence over social welfare policies, social forces supporting market oriented welfare provisions are rapidly gaining political power. Nonetheless, the possibility of a sudden transition towards a market oriented insurance system is highly unlikely due to the political and institutional consolidation of the integrated social insurance systems that took place during the financial crisis. However, unlike social insurance systems, public welfare services have not yet consolidated with other elements of Korean society. In the case of the social welfare service sector, there is a strong possibility that both private, market oriented providers and public providers will play important roles in delivering care services for the elderly and children. Thus, a welfare-mix is expected in the social service sector.

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<sup>23</sup> Recently, the Ministry of Gender Equality and Family (MGEF) has taken over the main roles of implementing childcare and family service policies from the Ministry of Health and Welfare. The MGEF is considering the deregulation of state-controlled childcare fees.

<sup>24</sup> A current example would be political resistance concerning the reduction of benefits in the NPS. The reform bill, proposed by the government in 2003, attempts to lower the benefit level to 50% from the current 60% rating. However, discussion regarding the bill is currently at a halt due to severe opposition from civic groups, labour coalitions, and the opposition party.

#### IV. Theoretical Implications for debates on the East Asian welfare regime

The Korean experience of state welfare development after the mid 1990s raises various implications for existing debates regarding the East Asian welfare regime. Thus, this section will focus on examining the theoretical implications of the Korean experience on existing debates in an attempt to identify the East Asian welfare regime. In particular, so-called 'Productive Welfare Capitalism' (PWC)<sup>25</sup> will be critically examined to confirm that the PWC perspective fails to capture the essence of the recent changes in the Korean welfare systems.

The so-called 'East Asian miracle' of Japan, Taiwan, Hong Kong and Korea attracted considerable academic attention, especially in terms of identifying the distinctive features of the welfare provision system and its economic development strategies. Under the assumption that the East varies from the West in its approach to welfare provision, academics attempted to capture this 'uniqueness' by using a variety of terms to define the East Asian welfare regime (Kim, Y.M., 2005a). Such terms include 'the Confucian model' (Jones, 1993), the 'developmental welfare state' (Kwon, H.J., 2005), and the 'conservative welfare regime or a hybrid of conservative and liberal welfare regimes' (Esping-Andersen, 1997). PWC is another term that seeks to define the uniqueness of the regional welfare system.

Despite national differences, the 1997-98 Asian financial crisis forced South East Asian countries to completely reorganize their social welfare systems along with their socio-economic structures. In this context, Ian Holliday (2005) examines the validity of the term PWC as a concept to capture the new developments in East Asian welfare systems after the Asian crisis. In essence, the PWC perspective argues that "social policy is an extension of economic policy, and is subordinated to and defined by economic objectives. Productivist states are defined by their economic policy. For them, the rest is incidental" (Holliday, 2005:148). Under such a hypothesis, Holliday assesses the modification of the welfare systems in Hong Kong, Singapore, Taiwan, and Korea after the Asian

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<sup>25</sup> There are three reasons why I am focusing on the PWC coined by Ian Holliday (2000, 2005). First, the PWC perspective still underestimates the recent changes in the Korean welfare system after the financial crisis. Second, the PWC perspective shares the same hypothesis and arguments as 'the developmental welfare state' and 'the Confucian perspectives'. As I will mention later, such arguments fail to acknowledge the possibilities of radical change in the East Asian social welfare system. Third, even though the PWC has not gained much popularity among the eastern academic social policy circles, it seems to have profoundly influenced the thinking of western scholars. For instance, Gough (2004) defines Northeast Asia as a productivist welfare regime in his recent book on the welfare regimes of developing countries.



economic crisis, but mostly focuses on Korea's main post-crisis welfare reforms<sup>26</sup>. While examining the Korean example, Holliday observes several changes that resulted in welfare enhancement, but argues that they are 'essentially limited character' (p.155), and 'were obvious productivist elements' (p.156). In conclusion, because significant changes that represent 'a paradigm shift from PWC to a more welfare-friendly regime' cannot be found in Korea, Holliday claims that Korea should continue to be defined as conforming to Productive Welfare Capitalism.

While the PWC perspective manages to highlight several characteristics of the 'early stage' of social policy development in East Asia, it fails to identify the changing nature of the welfare systems in this region. Thus, this perspective needs to be thoroughly re-examined with emphasis on the following three points: the limitations in identifying the fundamental changes in the welfare system, the failure to recognise the heterogeneous characteristics of East Asian welfare regimes, and the use of ambiguous terms and unclear logic in explaining the development of welfare<sup>27</sup>.

First of all, the PWC perspective characterizes East Asian countries as 'stagnant and unchangeable' in terms of their state welfare development, and as having an intrinsic problem of being insensitive to fundamental changes in welfare systems. According to the PWC perspective, it is very difficult for East Asian countries to move beyond a certain level of welfare development because developmental states exert strong control over the growth of state welfare, which is regarded as an obstacle to economic growth. Contrary to the PWC logic, welfare systems in Korea and Taiwan have not stagnated at a developmental state level over the last few decades. Korea and Taiwan's universal health insurance systems, established in 1989 and 1995 respectively, are very rare cases among developing countries. In particular, as examined in this paper, Korea, like most western countries, was already equipped with four universal social insurance systems, and is expecting the introduction of new long term care insurance in 2007. In addition a modernized public assistance programme was established, and public social services started to become more comprehensive. Furthermore, the amount of social expenditure is expected to rise substantially in the near future due to the maturation of social security and the changes in demography. The PWC perspective,

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<sup>26</sup> Although Holliday examines the policy changes of the four countries, his focus is targeted on the experience of Korea because, as he mentions (Holliday,147), Korea suffered greater losses compared to other countries from the crisis and was the nation that showed the most dramatic restructuring of its social welfare system.

<sup>27</sup> These limitations could also be applied to other perspectives that have classified East Asian welfare regimes, such as the developmental welfare state approach, and the Confucian welfare state perspective. These perspectives are essentially static rather than dynamic in recognizing East Asian society. Thus, they have common weakness in explaining why and how welfare changes occur.

however, underestimates these remarkable developments seeing them as being of an 'essentially limited character'. The perspective fails to offer plausible explanations as to why such considerable changes were able to occur. Thus, the PWC perspective fails to capture the dynamic changes in Asian welfare capitalism due to such static views on welfare development.

Second, what is open to question from the PWC perspective is whether the four countries can be classified as a homogenous group. The PWC perspective, like other perspectives, has shown a strong tendency to assume that East Asian countries have common social policy traits. However, there are profound discrepancies in principles between Korea, Taiwan, and other city-states in organizing their welfare provision; these differences became more salient after the financial crisis. As many recent articles have stated (Kwon, H.J., et.al. 2005; Ku, 2003), the Korean and Taiwanese models of social welfare became noticeably different from their Singaporean and Hong Kong counterparts especially after the establishment of democratisation in the late 1980s and the financial crisis in the late 1990s. While Korea and Taiwan are rapidly heading towards a western style welfare state, Singapore and Hong Kong remain substantially different (Lee, 2005; Ramesh, 2003).

Most importantly, the different principles that organise welfare provisions in this region should be highlighted. Both Korea and Taiwan initiated the building of their modern welfare states by introducing social insurance systems, which developed throughout the democratisation process in the 1980s-1990s and the financial crisis in the late 1990s. These social insurance systems are now firmly established as the core programme of social welfare provision in the two countries. In contrast, Singapore and Hong Kong chose provident funds systems and public assistance programmes as the foundation for their welfare provision. These two schemes have now become the core of the welfare systems in the two city-states (Ku, 2003). Regarding social solidarity, the three schemes found in the East Asian countries are based on completely different principles of risk-pooling. The occupationally inclusive universal social insurance systems in Korea and Taiwan<sup>28</sup> are based on nation-wide social solidarity among all citizens. The provident funds system is founded on the concept of very limited solidarity among family members, and the public assistance programme weakens social solidarity rather than strengthening it. In this context, there are enough reasons to group the four countries into separate worlds of welfare capitalism. Thus,

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<sup>28</sup> In Taiwan, national health insurance programmes were transformed into an integrated social insurance system (Wong, 2004). There has also been a move towards a more integrated system of pension insurance.

the PWC perspective, which attempts to categorize the diverging Asian countries as one block, increases the misunderstanding of the reality of the welfare systems in the four tiger economies.

Thirdly, the argument made by the PWC perspective contains several ambiguous terms and unclear logical explanations in explaining the 'unique' origins and development of social policies in East Asia. The 'subordination of social policies to economic and political purposes' could have two meanings. First, it could mean that welfare programmes are introduced for specific economic and political purposes, rather than humanitarian concerns. However, numerous historical examples prove that welfare programmes were created for specific economic and political purposes even in western societies.<sup>29</sup> As we have seen, in Korea, social welfare movements organized by civil society and labour unions have played a crucial role in developing major state welfare programmes over the last decade. In other words, the recent developments of state welfare in Korea cannot be fully explained by the economic and political intentions of a developmental state. Thus, there is no reason to say that the East is unique in its economic and political intentions of introducing welfare programmes. Second, the PWC argument also includes the logic that social policies in the East could develop only if the welfare programmes have a definite 'productive' function for the economy. In a social policy discipline, there are two different understandings of 'productive' social policy (Andersson, 2005). The proponents of neo-liberal social policy tend to consider 'less welfare' as productive for the economy. Thus, from a neo-liberal perspective, the Swedish welfare system, which is financed through high taxes, discourages work incentives and thus is considered 'unproductive' for the economy.

In contrast, from a social democratic perspective, a comprehensive public childcare service in Sweden encourages women's participation in the labour market, and significantly contributes to the economic prosperity and stabilization of the country. The PWC argument seems to understand 'productive' social policy through a neo-liberal perspective. In Korea, the expansion of major state welfare programmes such as the national pension, the integration of medical societies, and modernized public assistance programme, among others, were achieved by overcoming strong opposition from neo-liberal social forces (Kim, Y.M., forthcoming). The neo-liberal social forces in Korea actively opposed the introduction and expansions of state welfare programmes. Even in Singapore, where Holliday believes the PWC perspective is most heavily applied, nearly 80 percent

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<sup>29</sup> Prominent examples would be the introduction of state social insurance in Germany to co-opt the militant socialist labour movement, and the Social Security legislation in the USA as one of the Keynesian policy options adopted as a means to recover from the Great Depression. See Rimlinger (1993).

of the entire housing stock and medical facilities belongs to the public sector. However, such practices are incredibly ‘unproductive’ according to the perspective of neo-liberal economics, because they repress the growth of the private housing industry and private medical industry. Therefore, for the PWC perspective to become more convincing, the terms ‘productive’ and ‘productivism,’ must be defined more accurately. Also, the perspective must explore the methods of how social policy contributes to the economy, either in a productive or unproductive way.

In contrast to emphasizing East Asian ‘uniqueness’, Pierson observes similar patterns in the welfare programme development process in late industrialized countries, including East Asian and Latin America countries. According to Pierson (Pierson, C., 2004:233), the pattern in which “accidental injury insurance tends to be the first social security measure, followed by health and maternity insurance and then pensions for the old aged and disabled, with unemployment insurance and family allowance coming some way behind is astonishingly robust. So too is the pattern through which initial measures and covered population are extended (typically from key industrial workers to other workers, dependents, agricultural workers and the self-employed)”. With the exception of maternity benefit, such an observation reflects the pattern in which Korea has developed its social welfare programmes over the last four decades. In short, as society industrialized and demographic transitions occurred, Korea has followed the general pattern of welfare state development rather than a unique East Asian pattern.

## V. Conclusion

Throughout the previous decade, Korea’s social policies have experienced dramatic modifications. Even now, welfare systems in Korea are facing new socio-economic and political pressures never experienced before. In terms of the discussions above, several conclusions can be drawn on the nature of welfare system development after the financial crisis. Also, it is possible to anticipate the future path of the Korean welfare state.

First, following the financial crisis, the four integrated social insurance systems and the new public assistance programme were able to become firmly established. As far as social insurance and public assistance programmes are concerned, Korea has moved beyond the stage of an embryonic welfare state, and has entered the consolidation stage. Based on the present political situation, it is unlikely that the market-oriented political forces will radically change the system’s movement

toward comprehensiveness. Pro-welfare civic groups and labour unions have sufficient influence to defend the consolidated state welfare programmes from the attacks of market forces. Therefore, according to the logic of path dependence and the effects of maturation, a continual advancement toward a more comprehensive social protection system should be expected in the social insurance and public assistance programmes. However, the polarization of labour markets caused by economic globalization could become a serious barrier to achieving a 'universal' integrated social insurance system. The NPS in particular, which is strongly based on earnings-related contributions, could become a victim of labour market polarization and fail to achieve universal coverage. In contrast, the new public assistance programme, the NBLSS, will prevail under a polarized labour market due to the increasing number of the extreme poor.

Second, breaking away from their initially selective nature, social services have started to expand towards a more comprehensive childcare and elderly care system. However, private market-based service provision has also rapidly been extended in the social service sector. In other words, Korea has experienced a simultaneous expansion of both public and private provision in the social services sector. Radical changes in the demography and the transformation of the family structure will surely reinforce both trends. Even with the increase in political tensions between pro-welfare civil society and market-oriented interest groups, a welfare-mix is most likely to emerge as the future feature of welfare service provision in Korea.

Third, the Korean experience of welfare development provides several significant implications for existing debates regarding the East Asian welfare system. Perspectives that deem the social development of East Asian countries to be stagnant and unchangeable should be re-evaluated. Theories that categorize all East Asian countries as a single welfare regime should also be re-examined. In terms of the developmental sequence in major state welfare programmes, Korea has shown a relatively similar path to the development process of developed countries, and has the potential to continue in the same direction.

The most significant implication of the changes in welfare policies following the Asian financial crisis is not the rapid expansion of state welfare. Rather, it is the 'consolidation of the key state welfare programmes' which is continually expected to lead Korea towards a more comprehensive welfare state as welfare systems mature, the ageing society accelerates and family functions weaken. From now on, the most critical variable in determining the future path of the Korean

welfare state will be the polarization of the labour market. Indeed, the regime type of the Korean welfare state will largely depend on the policy measures taken to deal with labour market polarization.

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